

Okanogan County Electric Cooperative

2019 Financial Budget

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2019 Budget Highlights

2019 Power Sales and Use Data

➤ 2019 Purchase Power Forecast	64,947 MWH
➤ 2019 Line loss	4,767 MWH
➤ 2019 OCEC use	93 MWH
➤ 2019 Budgeted Sales	57,794 MWH
➤ 2019 Budgeted Revenues	\$5,891,986
Average Revenue per KWH sold	10.2 cents per kwh

2019 Budget Highlights

- Capital Credits to be retired for 2019 has been budgeted at \$182,542.
- Principal payment of long term dept is scheduled to be \$125,567.
- PNGC's normalized weather forecast is used as a basis for the sales and revenue forecast.
- Actual January and projected February sales and corresponding purchased power data has been adjusted based on actual information.

Overall Budget View

	Budget 2018	Actual 2018	Budget 2019
Revenues	\$5,501,400	\$5,584,791	\$5,891,986
Purchased Power	\$2,710,582	\$2,707,600	\$2,831,793
Operations and Maintenance	\$1,625,151	\$1,497,913	\$1,625,180
Depreciation, Interest and Taxes	\$825,078	\$794,273	\$802,501
Operating Margins	\$340,589	\$585,005	\$632,512
Capital Projects (Less CIAC and FEMA)	\$618,695	\$538,849	\$691,929

Revenues

Revenues are based on PNGC's load forecast which is based on normalized weather. Actual January and projected February data is used in the forecast.

	Budget 2018	Actual 2018	Budget 2019
MWH Sold	55,314	58,020	60,099
Revenues from Energy Sales	\$5,501,400	\$5,584,791	\$5,891,986
Other Revenues	\$69,154	\$249,466	\$90,523

Operations and Maintenance

	Budget 2018	Actual 2018	Budget 2019
Distribution Operations	\$69,956	\$88,646	\$93,078
Distribution Maintenance	\$574,973	\$551,055	\$593,844
Customer Accounts	\$299,887	\$291,181	\$305,740
Customer Info and Sales	\$5,700	\$5,785	\$699
Administration and General Expenses	\$674,635	\$554,082	\$631,819
Total O&M	\$1,625,151	\$1,497,913	\$1,625,180

Detail of Variances with 2018 O&M Results

- Operating Revenue – Variance is 5.5% or \$307,195
 - ❖ Increase is due to increase sales. Actual January and projected February sales data are used in the forecast.

- Cost of Purchase Power – Variance is 4.59% or \$124,193
 - ❖ Variance is due to increased kwh sales. Also \$30,000 was subtracted from the November power bill for the estimated PNGC demand credit. The \$30,000 is an average amount credited over the last few years.

- Distribution Expense – Operation – Variance is 5% or \$4,432
 - ❖ Variance is attributable to general cost increases and increase crew size.

- Distribution Expense – Maintenance – Variance is 7.8% or \$42,789
 - ❖ Variance is due to general cost increase and increase in crew size.
 - ❖ Also we are planning on keeping a very aggressive tree trimming program. We plan to use the same local contractor to follow our crews and chip so our crews can maximize tree trimming. Also, we are using another local contractor to mow certain ROWs.

Detail of Variances with 2018 O&M Results

- Customer Accounts Expense – Variance is 5% or \$14,559
 - ❖ Variance is due to general cost increase. Also in 2018, we started booking ½ of a front office employee’s time to propane because of the increase amount of time front office employees are spending with propane. Because of the continued increase workload in propane, we are going to hire an additional propane person for the front office. Thus we will revert to charging the afore mentioned front office employee similar to what we did pre-2018.

- Administration and General Expense – Variance is 14.03% or \$77,737
 - ❖ Variance is partially due to general cost increase.

 - ❖ Also, monies for training and conferences have been re-instated after being mostly curtailed in 2018. A list of these events is on page 10. This is budgeted for \$20,500.

 - ❖ One FTE for the line crew has been added to the budget to prepare for a scheduled retirement in 2020. There is no net increase in personnel anticipated.

2019 Conference and Training Events

After being mostly curtailed in 2018, selected training and conferences have been reinstated. Below is a list of scheduled events for employees and the Board.

Event	Date	Location	Attendee	Cost
NRECA and CFC Annual Meetings/Tech Advantage Exhibition	March 11-14	Orlando	David	\$ 3,000
NWPPA Engineering and Operations Conference	April 9 to 11	Spokane	Glenn and Wayne	\$ 2,000
NWPPA IT Conference	April 24 to 26	Bend, OR	Deanna and Mark	\$ 2,000
WRECA Annual Meeting	June 11 to 12	Spokane	David and Board	\$ 1,500
CFC Forum	July 1 to 3rd	New York	Lynn	\$ 3,000
NRECA Benefits			TBD	\$ 2,000
NWPPA Accounting Conference	June 19 to 20	Spokane	Tracy	\$ 1,000
NRECA Region 9	September	Spokane	David and Board	\$ 2,000
PNGC Annual Meeting	October	Portland	David and Board	\$ 2,000
CFC Independent Borrower Conference	November	Huntington Beach CA	David	\$ 2,000
Total				\$ 20,500
Note: This does not include PNGC and WRECA periodic meetings.				2/26/2019

2019 Capital Budget – Contents

- Assessment of Capital Assets
- Status of 2018 Capital Budget Projects
- Major Differences in 2018 and 2019 Capital Budgets
- Capital Budget Summary

2019 Capital Budget – Assessment of Capital Assets – Page 1 of 4

- OCEC's distribution system is in good condition. This capital budget is focused on miscellaneous projects, pole replacements, replacement of underground systems due to the age of these facilities and the start of the Mazama project.
- The OCEC office building is in good repair. There are two minor projects in the 2019 Capital Budget. One is to raise a garage door in the warehouse to match the other doors. This is a combination safety/convenience issue. The second is to extend the roof on the back walkway. This will help shield this walkway from ice and snow. This currently is a safety hazard in winter.

2019 Capital Budget – Assessment of Capital Assets – Page 2 of 4

- Vehicles are in relatively good shape. We ordered replacement for a small bucket truck that was purchased in 2008. This will be delivered and paid for in 2019.
- An addition of a small utility vehicle (Polaris Ranger with snow track option) is included in the budget. This vehicle is needed to increase access of personnel and materials to remote sections of our lines both during winter and summer. This will increase reliability and safety. Pictures of Nespelem Valley Cooperative's Ranger is on the next page.

Nespelem Valley Coop's Polaris Ranger w/ Snow Track



2019 Capital Budget – Assessment of Capital Assets – Page 3 of 4

- During 2019, we are going to study the feasibility of installing voltage monitors throughout the system that can be monitored in real-time by both operations and front office personnel on both computers and mobile devices. This will allow staff to identify and track the status of major outages affecting major lines. There will be no device control functions on this system. Right now our knowledge of the status of our lines is limited to the traveling down to the substation and checking status, the outage phone calls we get, and other info we can gather. This system will not identify small localized outages.

2019 Capital Budget – Assessment of Capital Assets – Page 4 of 4

➤ Mazama Feeder Improvements Update

- ❖ In 2013, a plan was formulated to provide a long range solution to the potential problems in the Mazama area due to load growth. A consultant engaged to verify the plan would work.
- ❖ This plan called for extending the higher circuit voltage from the Weeman Bridge (where the higher voltage is now converted to OCEC's lower nominal voltage) to the Mazama junction.
- ❖ In 2018, operations developed a specific plan to have this project finished by 2021 based on the developed solution confirmed by the consultant. We will start working this plan in 2019.
- ❖ Update: No low voltage was recorded in the area in the first quarter of 2019 due to the cold weather.

Status of 2018 Capital Budget Projects

Page 1 of 2

- ▶ Replace 8,000' of URD at Stud Horse – Completed 2000' in 2016 – Part 2 of projects was scheduled in 2018 and has been carried over to 2019.
- ▶ Completed 3,000' of 3 phase URD at Edelweiss (Part 1) – Some conduit is in ground – Waiting on Homeowners Association – Carried over to 2019.
- ▶ Fire Retardant – Not Completed
- ▶ Facility – Parking Lot Crack/Seal – Completed

Status of 2018 Capital Budget Projects

Page 2 of 2

- Perform major maintenance of substation regulators– Completed
- Pole Inspections – Completed
- Upgrade Bear Creek –This project was cancelled and will not be rescheduled at this time.
- Replace 3000’ of David Lake – Completed
- Replaced 1200’ of Green Meadow subdivision because of wire failure.

Major Differences Between 2018 and 2019 Capital Budgets – Page 1 of 3

The 2019 Capital Budget is approximately \$82,000 (or 13%) larger than the 2018 budget, net of CIAC. The major variances are from:

- Additional lineman (\$37,000 in extra fully embedded capital costs.)
- Increase in Vehicle Purchase Costs – The vehicle in the 2019 budget is the same as the vehicle in the 2018 budget. (The \$55,000 increase is due to getting the actual bid and also this budget number now includes new tooling for this vehicle)
- Addition of a small utility vehicle (Polaris Ranger with snow track option) is included in the budget. This vehicle is needed to increase access of personnel and materials to remote sections of our lines both during winter and summer. This will increase reliability and safety. A new trailer is also included in this. (\$30,000)
- Transformer Purchases were increased by \$60,000 to \$130,000 is due to increase in actual purchases in 2018 for new members and projected changeout of transformers for the Mazama project.

Major Differences Between 2018 and 2019 Capital Budgets Page 2 of 3

- The addition of a project to study the coordination of the protective devices on the lines. The entire project is \$30,000 and it will be split evenly over two years.
- Additional \$16,264 in “Storm Damage”. This number is based on 2018 expenses for repairs that were capitalized. This does not include cost of repairs from storms where expenses were expensed to O&M.
- Capital work gear budgeted include 1) a phase tracker for use on the distribution system; 2) pole tamper for use in setting poles. The cost of these are \$24,000.

Major Differences Between 2018 and 2019 Capital Budgets Page 3 of 3

- Proposed in this budget are two projects pertaining to the main building:
 - ❖ Extend the roof over the back walkway to keep ice off of it.
 - ❖ Raise level of one of the garage doors to match the other one.

- There is \$21,000 for the fire retardant pole treatment project. Similar projects were completed previously on the Twisp River line from Hoot N Holler to the Twisp River and the Sun Mountain line. This year we plan to treat the main circuit of the Mazama line.

- The 2019 Capital budget includes a \$174,000 credit for final payment from FEMA for the 2014 and 2015 fire damages to our lines. This money has already been received.

Capital Budget Summary – Page 1

		2019 Budget
Members Requested Facilities (CIAC)		\$288,855
Replacements (Pole and Transformers)		65,925
Misc. URD/OH Projects		72,685
Replace 2,500' of URD at Stud Horse (Part 2 of 5)		56,609
Replace 2,500' of URD at Edelweiss (Part 2 of 10)		123,217
Mazama Upgrade – Phase 1		51,897
Complete URD loop at Sky Ranch		37,739
Raise Garage Doors to match the other doors		10,000
Pole Inspections		10,000
Fire Retardant - Mazama Circuit		20,739

Capital Budget Summary – Page 2

			2019 Budget
Purchase Pole Tamper and other tools			\$ 18,000
Purchase Phase Tracker			6,000
Roof Extension over Back Walkway			10,000
Coordination Study, Part 1 of 2			15,000
Major Storm Damage			16,264
Subtotal Work Order Projects			802,929
Less Member contribution (CIAC)			(340,000)
Total Work Order Projects less CIAC			462,929
Meter Purchases			35,000
Computer and Software Upgrades			18,000
Transformer Purchases			130,000
Vehicle Additions and Replacements			220,000
FEMA Reimbursement			(174,000)
Total Capital Budget			\$691,929

Assumptions and Risks

- Budgeted 2019 TIER is 4.72 (TIER means “Times Interest Earned” and is a measure of how many times margins are earned compared to interest on long term debt.)
- The Equity Ratio on the end of 2019 is forecasted to be 73.6%. This does not include any additional margin from OCEI. With a normal year at OCEI, the equity ratio for OCEC at the end of 2019 would be 73.8%.
- A 3% wage increase is incorporated into the budget. This increase will go into effect on July 1st.
- No line contractors are expected to be used except for local ditching contractors and local tree crews that will chip/clean-up tree debris when our line crew is trimming.
- Customer advances for Construction (CIAC) is variable and depends on area construction. For the capital budget, CIAC was based on a modified four year average. This is highly dependent on construction in the area. A lower CIAC than expected will have a negative effect on cash flow.

Assumptions and Risks

- Cash flow is forecasted to be level for 2019. No additional borrowing due to OCEC operations is expected. Cash flow though is highly dependent on variables listed below.

- The financial budget is used as a guideline and is based on the best available information at the time it was developed. Variables that could effect actual results include:
 - ❖ Weather
 - ❖ Number of cold and hot days
 - ❖ Natural disasters
 - ❖ Local construction trends
 - ❖ Local regulatory decisions effecting water availability
 - ❖ Interest rates
 - ❖ Decisions made by management in response to changing and unforeseen circumstances

These and other variables will have an effect on the final financial results.

Potential Increases in 2020 Budget

- Additional personnel may need to be hired in 2020 in order to be prepared for employee retirements in the coming years. There is no planned net increase in personnel at the end of this transition.
- The current phone system is antiquated and needs to be replaced. We will get bids in 2019 in order to budget this in 2020.